

## **Introduction of the Business Department System**

J-Power/EPCC established its New Management Strategy in May of last year. Its core elements are two main management orientations that call for an “organization-wide strengthening of competitiveness in the electricity wholesale business” and a “further expansion and development of international and new business activities.”

The commitment to the organization-wide strengthening of competitiveness in the electricity wholesale business entails an effort to improve the efficiency of the organization and its manpower on the basis of the “Third Phase of the Restructure Plan” covering the five-year period from fiscal 2001 through to fiscal 2005. Its aims are to increase profitability and further consolidate the financial foundations of the organization.

The following comments highlight the practical measures that are to be introduced with effect from fiscal 2002 within the framework of the “Third Phase of the Restructure Plan”.

### **1. Introduction of the Business Department System**

(See Appendix 1-1 & -2 for the organizational chart.)

#### **(1) Establishment of 6 Business Departments and Introduction of an Executive Officer (EO) System**

- Amidst the accelerating pace of change in our present business climate, it is vital for the company to have the flexibility to react swiftly and decisively to the prevailing market trends and thereby strive to maximize profitability for the corporate organization as a whole.
  
- In accordance with this vision, J-Power/EPDC has restructured its entire corporate organization with the introduction of the [Business Department System]. Aimed at an optimization of the organization as a whole, this system divides the company into a [Corporate Department] with clearly defined functions by establishing and promoting management strategies for the entire Group and the individual Business Departments to let them each pursue the goal of achieving maximum profitability for their activities.
  
- Under the reorganization, the following 6 Business Departments will be created and Executive Officer Department Directors will be appointed to accept executive powers and responsibilities for their respective Departments under the direction of the President. The benefits of this new [Business Department System] will be significant in terms of the greater speed with which decisions can be made and business executed and the removal of all ambiguity in the definition of executive and profit-related responsibilities.
  
- Under the new system the key functions including budget control, dealing with issues concerning

land for location and the environment, and procurement will be substantially transferred to the 6 Business Departments from the former Corporate Department. The functions of each department are brought under the unified control of its Department Director.

The 6 Business Departments and its main activities:

- Hydropower & Power Network Department (Maintenance, operation and construction of Hydropower generation, transmission lines & transformer substation and telecommunication facilities)
- Thermal Power Department (Maintenance, operation and construction of thermal and geothermal power generating facilities)
- Nuclear Power Department (Promotion of the construction of nuclear power generating facilities)
- New Business Development Department (Expansion and promotion of new business areas)
- International Activities Department (Expansion and promotion of overseas IPP and consultant business)
- Engineering Department (Expansion and promotion projects offering engineering services)

## (2) Restructuring of the Regional Organizations

In conjunction with the introduction of the [Business Department System], the regional organizations responsible for facility maintenance will also be restructured with the creation of 4 Regional Headquarters in charge of Hydropower & Power Network Department (Sapporo Office covering Hokkaido, the Kawagoe Office covering Eastern Japan, the Kasugai Office covering the Chubu area, and the Osaka Office covering Western Japan) and Thermal Power Department directly controls the seven thermal power stations.

- Each Regional Headquarters will be assigned specific profit targets for which it will be responsible within the scope of the different Business Departments. In this manner, each department has a clearly defined requirement to contribute to the profit targets.

## (3) Streamlining and Reorganization of the Administrative Departments

- In parallel with the introduction of the Business Department System, the Corporate Organization (consisting at present of 8 Departments and 2 Offices) will be reorganized into 5
- “The Technical Development Center” as part of the Corporate Organization has its central head office functions in Chigasaki. It has been restructured and reinforced to act as a strategic technical development outfit. The target areas of this department are the energy (electric power

Dept., General Affairs Dept., Power Sales Dept., and Technical Development Center)

- “The Technical Development Center” as part of the Corporate Organization has its central head office functions in Chigasaki. It has been restructured and reinforced to act as a strategic technical development outfit. The target areas of this department are the energy (electric power resources) and environmental domains. The fusion of intellectual resources from both within and without the company creates new values to broaden the platform for expansion into new business fields. The technical development interests related to the existing wholesale power business transfer to the individual Business Departments.
- The administrative and highly specialized affairs, including company-wide labor relations and accountancy will be taken away from each organization and centralized with the creation of a Shared Service Center (\*). Before the Center will start to provide full services as an independent entity in October, it is to be established on an interim basis as a preparatory organization within the Corporation Planning & Administration Department.

**\* What does the Shared Service Center do?**

The purpose of creating the Shared Service Center is to centralize the administrative or routine tasks that have been carried out by a plurality of organizations and the highly specialized activities such as accounting and auditing, and to establish a proper system with the benefit of simplifying the work flow, standardizing the procedures, and achieving a greater level of sophistication and efficiency in the execution of the tasks through a review of the system.

In conjunction with the introduction of ERP (Enterprise Resource Programming), an interim system will be established with a view to commencing full-scale operation in October when new activities such as labor relations and welfare (wage, travel expense calculation, welfare procedures), financial affairs and secretarial matters will be added.

**2. Reduction in the Number of Directors on the Board and Introduction of an Annual Remuneration System for Special Management**

(1) Reduction in the Number of Directors on the Board

- Because the Executive Officers (EOs) of each of the Business Departments will be given substantially greater powers, the number of Directors on the Board will be reduced from 19 to 15.

(2) Introduction of an Annual Remuneration System for Special management

- The annual remuneration system that has already been introduced for Department level directors will also come into effect for special management other than department directors. The merit portion of the salary related to performance will be expanded as part of a far-reaching effort to introduce a performance-based system of remuneration.

- In addition, a roughly 10% cut in the level of salaries will come into effect as compared with the current rates of remuneration.

### **3. Fundamental Review of the Administrative Service System**

A unified database for all information within the Group will be created and shared group-wide in an effort to upgrade work efficiency and technical capability, with the new introduction of Enterprise Resource Planning (ERP) and a Computerized Maintenance Management System (CMMS).

#### **(1) Introduction of ERP (Enterprise Resource Planning)**

- The company's conventional administrative service systems, including accounting and stock purchase administration had stopped short at replacing the work flow with information technology (IT), and the system had remained hierarchical in structure, divided into the various tiers of service.
- The present reform of the organization will revolutionize this basic service system with the company-wide introduction of the ERP package software (unified administration service software) capable of executing the administrative tasks by linking the individual administration activity modules such as general accounting, purchase control, credit sales and trade account payable controls, fund management for construction projects, and management accounting.
- The introduction of ERP will permit the unification of information relating to various administrative activities in a centralized database to achieve a higher level of sophistication and efficiency in the execution of the administrative tasks. Since it will also be possible to call up management information such as monthly financial statements at any time, the ERP package software will also help to optimize and expedite the decision-making process. A further merit of ERP is the ability to standardize and simplify administrative procedures, thereby eliminating inefficiencies and achieving a far-reaching reform and streamlining of the administrative services.

#### **(2) Introduction of CMMS (Computerized Maintenance Management System)**

- To achieve greater technical performance in the maintenance and management of the power stations and transmission line/transformer substation facilities a CMMS is in the process of being introduced. This system will allow for centralization and systematization of technical data and maintenance and management procedures. This is a significant step toward upgrading efficiency.
- The CMMS system executes and manages in a fully system-integrated manner all maintenance and management operations from the issuing of the operational commands to managing the maintenance data.
- Storing the design data for the equipment as well as the maintenance, inspection and breakdown records on a system database helps not only to improve the accuracy of equipment

diagnostics but also to optimize the equipment repair and renewal timing.

-The system is to be put into service at the Koide and Matsuura Power Stations in fiscal 2002 first and is scheduled to be deployed in due course at all power stations with effect from fiscal 2003. Proper system operation is due to commence with effect from fiscal 2004.

End of announcement